

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

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COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

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R 211154Z MAY 75

FM AMEMBASSY BUJUMBURA

TO SECSTATE WASHDC 4805

INFO AMEMBASSY BUCHAREST

AMEMBASSY DAR ES SALAAM

AMCONSUL JOHANNESBURG

AMEMBASSY KIGALI UNN

AMEMBASSY KINSHASA

AMCONSUL LUBUMBASHI

AMEMBASSY NAIROBI

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LIMITED OFFICIAL USE SECTION 1 OF 2 BUJUMBURA 0322

E.O. 11652: N/A

TAGS: EMIN, EINV, BY

SUBJECT: DEVELOPMENTS IN BURUNDI NICKEL PROJECT

SUMMARY. IN LAST THREE DAYS, I HAVE HAD FAIRLY LONG CHATS WITH NICOLAS VARLAMOFF, CHIEF OF UNDP MINERALS DIVISION, WHO IS ON VISIT FROM NEW YORK, AS WELL AS WITH SENIOR BURUNDI ECONOMIC OFFICIALS (PLANNING CHIEF BIHUTE, ECONOMICS AND FINANCE MINISTER MPOZAGARA, AND ECONOMIC CHIEF IN PRESIDENCY ERIC MANIRAKIZA) CONCERNING CURRENT STATE OF PLAY ON NICKEL PROJECT. MY IMPRESSION IS THAT MATTERS ARE NOW IN MORE ACTIVE STAGE AND THAT SOME IMPORTANT ORGANIZATIONAL DECISIONS ON NEXT STEPS MAY BE IN OFFING. END SUMMARY

1. BURUNDI OFFICIALS INDICATE THAT TEMPELSMAN HAS RECENTLY
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WRITTEN MICOMBERO EXPRESSING READINESS TO COME TO BUJUMBURA

(PROBABLY EARLY IN JUNE) WITH REPRESENTATIVES OF PROSPECTIVE CONSORTIUM MEMBERS (INCLUDING ALLEGHENY-LUDLUM STEEL AND FALCONBRIDGE) TO DISCUSS NEXT STEPS WITH BURUNDI GOVERNMENT. MEANWHILE, TEMPELSMAN HAS ALSO WRITTEN IBRD PRESIDENT MCNAMARA TO ASK BANK'S COOPERATION IN FINANCING NICKEL DEVELOPMENT. BURUNDI OFFICIALS EXPECT MEETING TO MATERIALIZE WITHIN MONTH, AND THEY ARE UNREALISTICALLY OPTIMISTIC IN CONCLUDING THAT SITUATION HAS ALREADY JELLED FAVORABLY FOR THEM.

2. IN THEIR VIEW, THE VALUE OF THE BURUNDI NICKEL IS SO WELL ESTABLISHED THAT ONLY TECHNICAL DETAILS REMAIN TO BE WORKED OUT, AND THAT THEIR BARGAINING LEVERAGE IS STRONG. THEY THINK THAT UNDP FINANCED DOLLARS TWO MILLION FEASIBILITY STUDY, TO BE STARTED LATE 1975 AND COMPLETED BY END OF 1976, WILL ANSWER ALL TECHNICAL QUESTIONS, AND THAT TEMPELSMAN AND HIS COLLEAGUES WILL ALMOST BE CLAMORING TO MAKE THEIR INVESTMENTS. MOREOVER, THESE OFFICIALS EXPECT WORLD BANK TO FINANCE, LARGELY ON SOFT LOAN BASIS, ALL OF INFRASTRUCTURE COSTS (ELECTRIC POWER CAPACITY, TRANSPORT NEEDS, WORKERS HOUSING, LABOR TRAINING, ETC). LEAVING ONLY ACTUAL FUNDING OPERATION AND NICKEL REFINERY COMPLEX TO PRIVATE CAPITAL. VISITING IBRD EXPERTS, ALTHOUGH SPEAKING WELL OF TEMPELSMAN, HAVE LATELY ADVISED BURUNDI OFFICIALS TO BE VERY CAUTIOUS ABOUT CONCLUDING EARLY DEAL WITH ANY ENTREPRENEURS, PENDING OBJECTIVE OUTSIDE EVALUATION OF CONTRACT TERMS. SOMEWHAT PARADOXICALLY, THIS COUNSEL HAS ONLY CONFIRMED BURUNDI BELIEF THAT, IF REGIME SIGNED DEAL NOW AND GIVE GO AHEAD SIGN, EAGER INVESTORS WOULD PROBABLY START CONSTRUCTION IN 1977.

3. VARLAMOFF PAINTS SOMEWHAT DIFFERENT PICTURE WHICH HE WILL TRY TO MAKE BIHUTE AND MPOZAGARA UNDERSTAND WHEN HE SEES THEM THIS WEEK. HE IS SATISFIED ABOUT EXTENT OF NICKEL DEPOSITS HERE, BUT HE KNOWS THAT UNDP STUDY WILL ONLY BE GENERAL OVERVIEW OF PROJECT. IT WILL COME UP WITH SPECIFIC CONCLUSIONS ON POWER SOURCES, TRANSPORT ROUTES, MANPOWER PROBLEMS, REFINING PROCESSES, WORLD MARKET PROSPECTS, AND LONG RUN PROFITABILITY OF PROJECT, BUT THIS WILL STILL LEAVE NEED FOR TWO TO FOUR MORE YEARS OF DETAILED STUDIES REQUIRED FOR BLUEPRINTS OF PARTICULAR FACILITIES AND FOR HANDLING ALL ORGANIZATIONAL AND FINANCING ARRANGEMENTS. HE WILL TELL BURUNDI OFFICIALS THAT, IN HIS EXPERIENCE, WORLD BANK WILL EVENTUALLY UNDERTAKE NECESSARY DETAILED STUDIES, BUT THAT BANKS LIMITED OFFICIAL USE

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SUPERCAUTIOUS APPROACH WILL CONSUME ANOTHER FIVE OR SIX YEARS AFTER 1976 BEFORE IT WILL PROCEED TO LOAN STAGE ON ITS OWN. ON OTHER HAND, IF PRIVATE CONSORTIUM WERE WILLING TO INVEST DOLLARS 8 TO 12 MILLION IN THESE PRELIMINARY STUDIES, ITS DYNAMISM COULD CUT TIME IN HALF AND THUS LEAD TO EARLIER INVESTMENT DECISIONS BY BOTH CONSORTIUM AND IBRD. VARLAMOFF THINKS BURUNDI MAY HAVE TO MOVE FAIRLY QUICKLY TO DECISION ON DEVELOPMENT ROUTE WHICH IT WILL TAKE AND ON TERMS OF ANY

DEVELOPMENT AGREEMENT WHICH IT MAY SIGN. TOTAL INVESTMENT COSTS PRIOR TO START OF OPERATIONS ARE STILL ESTIMATED AT DOLLARS 400 TO 500 MILLION.

4. WITH ALL INQUIRERS, INCLUDING SENIOR BURUNDI OFFICIALS, I HAVE BEEN TAKING LINE THAT U.S. GOVERNMENT IS STRICTLY NEUTRAL ON QUESTION OF AMERICAN INVESTMENT PARTICIPATION, SINCE WE WISH NEITHER TO ENCOURAGE NOR DISCOURAGE DECISIONS WHICH SHOULD BE BASED ON ASSESSMENTS OF TECHNICAL FEASIBILITY AND COMMERCIAL PROFITABILITY. I HAVE TOLD OFFICIALS THAT IF DRAFTING OF AGREEMENT IS UNDERTAKEN, THERE SHOULD BE NO RUSH ON EITHER SIDE, SINCE A CONTRACT THAT IS UNCLEAR OR THAT PAPERS OVER DIVERGENT VIEWPOINT IS ONLY AN INVITATION TO TROUBLE IN FUTURE. IMPORTANT POINT IS TO REACH ACCORD ON REAL PARTNERSHIP WHICH CAN LAST FOR DECADES WITHOUT CAUSING FRICTIONS THAT IN OTHER CASES HAVE LED TO INTERNATIONAL DISPUTES AND EXPROPRIATIONS.

5. VARLAMOFF HAS ADDED FOLLOWING ADDITIONAL DETAILS ABOUT NICKEL PROJECT AND OTHER MINERALS DISCOVERIES IN BURUNDI:

A. BESIDES TEMPELSMAN, AMAX, INCO, NORANDA, AND LE NICKEL HAVE ALL HAD REPRESENTATIVES VISIT BUJUMBURA, BUT NONE SEEMS AS ACTIVE OR ADVANCED IN PREPARATIONS AS TEMPELSMAN. HE NOTES, INCIDENTALLY THAT IN ALL HIS TALKS WITH COMPANY REPRESENTATIVES, HE HAS BEEN ASKED ABOUT LONG-TERM PROSPECTS FOR POLITICAL STABILITY IN BURUNDI. WHILE HE AVOIDS FIRM PREDICTIONS AND TELLS QUESTIONERS TO FORM OWN JUDGMENTS, HE THINKS NICKEL PROJECT SHOULD BE USED AS VEHICLE TO FORCE GREATER HUTU PARTICIPATION IN DEVELOPMENT OF ECONOMY. (I CAN ADD THAT NEW YORK FIRST NATIONAL CITY BANK REGIONAL OFFICE IN NAIROBI, WHICH HAS SHOWN RECENT INTEREST IN MANAGING OR FINANCING NICKEL WORKS, PLANS TO SEND OFFICER HERE IN JUNE OR JULY. ALSO SOVIET INTEREST HAS LATELY PERKED UP A BIT OWING TO DISCOVERY LIMITED OFFICIAL USE

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OF PLATINUM IN NICKEL ORES AND POSSIBLE PLATINUM OUTPUT OF SEVEN TONS PER YEAR.)

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INFO OCT-01 EUR-12 IO-10 ISO-00 FEA-01 ERDA-05 AID-05

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H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 /111 W

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R 211154Z MAY 75

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B. VARLAMOFF HAS HEARD THAT ROMANIANS WOULD LIKE TO USE THEIR POSITION IN JOINT COMPANY (SOMIBURO) SET UP WITH BURUNDI IN MARCH TO GAIN OVERALL MANAGEMENT OF PROJECT, BUT HE CONSIDERS THIS IMPOSSIBLE SINCE ROMANIANS HAVE NO EXPERIENCE IN NICKEL FIELD AND NO CAPITAL TO OFFER. (WE KNOW THAT EXACT ROMANIAN ROLE IN PROJECT AND EVEN IN SOMIBURO WAS LEFT UNCLEAR DURING BILATERAL DISCUSSIONS.)

C. PRELIMINARY ESTIMATES INDICATE THAT WITH ABOUT THREE DAMS ON DIFFERENT RIVERS, BURUNDI CAN PROBABLY GENERATE 150 MEGAWATTS BY ITSELF, WITHOUT RELYING ON EXTERNAL POWER SOURCES. WHILE THIS WOULD BE ABOUT ENOUGH FOR NICKEL PROJECT, IT WOULD EXHAUST HYDROELECTRIC POTENTIAL. HENCE, STRONG CONSIDERATION IS LIMITED OFFICIAL USE

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BEING GIVEN TO DEVELOPING "BILLIONS OF TONS" OF PEAT IN NORTH OF COUNTRY, NOT ONLY TO PRODUCE AMMONIA FOR NICKEL REFINING, BUT ALSO TO FUEL THERMAL PLANT OF ABOUT 50 MEGAWATTS.

D. SHIPMENT OF REFINED NICKEL OUTPUT OF UP TO 35,000 TONS A YEAR CANNOT JUSTIFY 200 MILE SPUR TO TANZANIAN RAILWAYS. HENCE ROAD ALTERNATIVE FROM REFINERY ALONG SOUTHERN BURUNDI BORDER

TO NYANZA-LAC AND THEN VIA BARGE TO KIGOMA RAILHEAD IS LEADING CONTENDER ON TRANSPORT. ALTERNATIVE IS CHARTER FLIGHTS OF GIANT CARGO PLANES, NORMALLY TO EAST AFRICAN PORTS, BUT OPTION, IN CASE OF POLITICAL PROBLEMS WITH TANZANIA OR KENYA, TO FLY TO ZAIRE OR ANGOLA PORTS.

E. TO AVOID RELIANCE ON EXPATRIATE PERSONNEL, BURUNDI SHOULD BEGIN VERY SOON TO TRAIN ABOUT 800 EXPERTS WHO WILL BE USED IN VARIOUS ASPECTS OF NICKEL PROJECT. ABOUT 5,000 UNSKILLED AND SEMI-SKILLED WORKERS WILL ALSO BE EMPLOYED IN THE OPERATIONAL PHASE, AND MANY MORE DURING PRIOR CONSTRUCTION.

F. LIFE OF UNDP MINERALS TEAM WILL BE EXTENDED THREE YEARS BEYOND PLANNED SPRING 1976 TERMINAL DATE TO ALLOW FOR FULL PROSPECTING EFFORT ON URANIUM. VARLAMOFF THINKS TECHNICAL EXPLORATION PROBLEMS CAN BE OVERCOME AND THAT DEPOSITS WILL EVENTUALLY ALSO BE FOUND ON RWANDAN SIDE OF BORDER, THOUGH HE REFUSES TO GUESS NOW ABOUT AMOUNTS. TEAM WILL ALSO SEEK OUT EXPLOITABLE GOLD VEINS AND CONDUCT CAREFUL SEARCH FOR COAL DEPOSITS WHICH VARLAMOFF BELIEVES UNDERLIE PART OF RUZIZI RIVER PLAIN.

G. VARLAMOFF DOES NOT RPT NOT CONSIDER INTERSEAS A SERIOUS COMPANY, AND HE THINKS IT WILL NEVER FULFILL OIL DRILLING CONTRACT HERE. IN ANY CASE, IT WOULD BE OF LITTLE VALUE TO FIND SMALL PETROLEUM POOL IN RUZIZI VALLEY, SINCE LOCAL MARKET IS TOO MINOR TO JUSTIFY EVEN A SMALL REFINERY, AND SINCE EXPORT OF CRUDE WOULD BE TOO EXPENSIVE.

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